

Caleffi (CLF.IM)

Sector: Textiles/Household

1H2019: Margins recovery and focus on 19-22 plan implementation

September 13th, 2019

Investment Overview

- Caleffi is one of the leading Italian players in the textile household market. The company focuses on the value-added phases of the value chain, guarantees the best quality of its products and a high positioning of its brands.
- Caleffi Group is getting to the hearth of the three-years plan published in May, whose actions has already showed positive results in the 2019 first semester, mainly regarding a positive profitability performance.
- On September 13th, the Group published the 2022 targets in terms of total sales (52-54M€) and adjusted Ebitda margin (>8%).

Latest results

- Half-year consolidated turnover was up to 22.8M€ (up 1.9% yoy), quite fully achieved in the domestic area (93%) with a little contribution from foreign markets worth 1.6M€. Full year turnover is expected to reach 51M€.
- EBITDA was positive for 1.3M€, after benefiting of 0.8M€ costs shift related to IFRS 16 application; adj. EBITDA was up to 0.5M€, strongly improving vs the negative value of 1H2018 as a result of the costs rationalization measures.
- Net operating profit (EBIT) was -0.2M€, vs -1.5M€ in 2018, after D&A costs worth 1.5M€, higher than last year due to IFRS 16 entry into force. Full year profitability numbers should be better thanks to business seasonality which fosters the sale of high-margins products in the winter season.
- 1H2019 Net result was negative for 0.4M€ (-1.1M€ in June 2018).
- Half-year NFP was strongly influenced by IFRS 16 application, being worth 19.9M€ (debt); not considering the IFRS 16 effect, the value would have been negative for 12.3M€, in line with the 2018 end-of-year balance.

Valuation

- Industrial plan implementation in this semester was mainly focused on costs' structure optimization, leading to a positive profitability again. In addition, Caleffi's plan includes remarkable investments in marketing and communication, a focus on sustainability initiatives (like green and plastic free projects) as much as on the reorganization of governance structure.
- In view of 1H2019 results and our appreciation of the business plan 19-22, we confirm our positive outlook; the SGAP model returns a fair value of 1.62€.

Risks

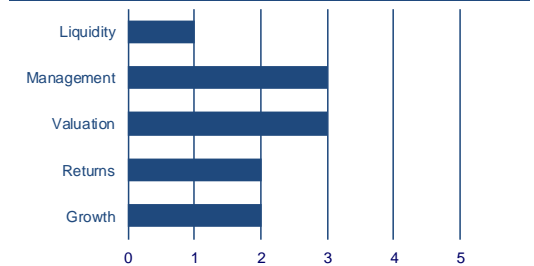
- Caleffi's sales are highly dependent on the general level of consumption and to a lower extent on the real estate market, the Company results depend partly on the volatility of the macroeconomic environment.

Forecast	18A	19E	20E	21E
Sales (€M)	51.1	51.4	51.9	52.9
EBITDA (€M)	0.6	3.3	3.9	4.8
NET RESULT	-0.8	0.2	0.4	1.2
NFP (€)	11.4	17.4	15.1	12.7
Valuation	18A	19E	20E	21E
SHARE PRICE	1.45	1.34	1.68	1.79
EV/EBITDA	59.0	12.3	11.3	9.0
P/E	n.m.	131.7	59.9	24.1
Dividend yield	0.0%	0.3%	0.7%	1.7%

Key Data

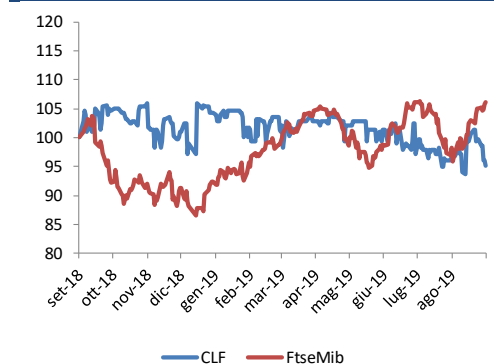
Price (€)	1.34
Market cap (€M)	21.0
Equity Value (€M)	25.3
Fair Value (€)	1.62
P/E LTM	neg.
P/E TTM	neg.

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	CLF.IM
N° of shares (M)	15.6
Free float	44.9%
Main shareholder	Giuliana Caleffi (40.4%)
Daily trading volume	10,404 shares



Share Price perf (%)	3M	6M	1Y
Absolute	-6.1%	-6.8%	-4.8%
Rel. to FtseMib	-13.7%	-13.0%	-11.0%

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Latest results (1H2019)

1H2019 results benefited from the costs structure rationalization actions which impacted positively in terms of group profitability performance. The parent company Caleffi SpA recorded a stable turnover compared to 1H2018, amounting to 16.7M€; the EBITDA was worth 0.8M€ (-0.2M€ without IFRS 16) and marked a strong improvement vs last year's value.

During 2019 Caleffi SpA deployed about 0.3M€ in tangible investments towards the refitting of two shops in Northern Italy and the conversion of two directly-owned sales outlets (Molfetta and Marcianise).

The subsidiary Mirabello Carrara presented positive numbers in terms of both sales, up to 7.1M€ (up 6% vs June 2018) and EBITDA, worth 0.6M€, more than doubled comparing to 1H2018.

M€ (*)	1H2019	1H2018	% var
Tot Revenues	22.8	22.4	+1.9%
Ebitda	1.3	-0.7	n.m.
<i>Ebitda margin</i>	5.9%	-3.3%	
Ebit	-0.2	-1.5	n.m.
<i>Ebit margin</i>	-1.4%	-6.7%	
Net Financial Position	19.9	13.2	

(*) Reported data, including the effect of the application of IFRS16

BUSINESS PLAN 2019 – 2022

The company presented an ambitious business plan for the years 2019 - 2022. After a 2019 aimed at making the cost structure more efficient, the following three years will be aimed at:

- development and **creation of sustainable value** over time;
- rationalization of costs along the entire supply chain;
- development of specific **sustainability projects**;
- redefinition of the organizational structure

In order to create sustainable value, a continuous enhancement of the Caleffi brand is expected through investments in communication, omnichannel marketing actions, trade marketing activities. Furthermore, a review of the dynamics of the offer is envisaged, such as total looks for the home, review of the product offer in a “fast fashion” and rebalancing of the offer towards the most leading product / style segments. Specific marketing-commercial plans will be implemented in each of the current business areas; for example:

- review of marketing policies with a strong focus on increasing commercial margins (data driven approach, strategic product-marketing);
- in the traditional retail channel maximum priority will be given to the recovery of margins and the strengthening of relations with customers;
- rationalization of the current own store and strengthening of its performance;
- in the e-Commerce channel, initiatives aimed at growth and customer loyalty will continue.

FINANCIALS

Income statement (€M)	18A	19E	20E	21E
Sales	51.1	51.4	51.9	52.9
COGS	-23.9	-24.0	-24.3	-24.7
Gross Profit	27.2	27.3	27.6	28.1
EBITDA	0.6	3.3	3.9	4.8
Depreciation, Amortization	-1.6	-2.8	-2.8	-2.8
EBIT	-1.0	0.5	1.1	2.0
Net Financial Results	-0.1	-0.2	-0.3	-0.3
Income tax	0.2	-0.2	-0.3	-0.6
Net result	-0.8	0.2	0.4	1.2
EPS (€)	n.m.	0.01	0.03	0.07
DPS (€)	0.00	0.00	0.01	0.03

Margin (%)	18A	19E	20E	21E
Gross Margin	53.2%	53.2%	53.2%	53.2%
EBITDA Margin	1.2%	6.5%	7.5%	9.1%
EBIT Margin	-1.9%	1.0%	2.1%	3.8%
Net Margin	-1.6%	0.3%	0.8%	2.2%

Growth (%)	17A	18E	19E	20E
Sales growth	-11.6%	0.5%	1.0%	1.9%
EBITDA growth	-68.7%	437.5%	16.5%	24.3%
EBIT growth	-358.6%	-154.9%	102.6%	86.6%
Net growth	-6716.7%	119.5%	174.2%	166.1%

Cash Flow statement (€M)	18A	19E	20E	21E
Cash Flow	0.8	3.0	3.2	4.0
+/- Var. Working Capital	4.1	0.0	0.1	-0.1
Operating Cash Flow	4.9	3.0	3.3	3.8
Op. Cash Flow / Sales	9.5%	5.8%	6.4%	7.3%
Capex	-0.4	-8.9	-0.8	-1.0
FCF	4.5	-5.9	2.5	2.8
FCF / Sales	8.8%	-11.5%	4.8%	5.4%

Stock data	18A	19E	20E	21E
Number of Shares (M)	15.6	15.6	15.6	15.6
Avg share price over LTM (€)	1.45	1.34	1.68	1.79
Market cap (€M)	22.7	21.0	26.2	28.0

Balance sheet (€M)	18A	19E	20E	21E
FIXED ASSETS	7.9	14.0	12.0	10.2
WC	20.0	20.0	20.0	20.1
CAPITAL EMPLOYED	28.0	34.0	32.0	30.3
EQUITY	13.0	13.1	13.4	14.1
MINORITY INTEREST	0.5	0.5	0.5	0.5
PROVISIONS	0.4	0.4	0.4	0.4
PENSIONS (e.g. TFR)	2.6	2.6	2.6	2.6
NET DEBT	11.4	17.4	15.1	12.7
CAPITAL INVESTED	28.0	34.0	32.0	30.3

Ratios	18A	19E	20E	21E
ROCE after tax	n.m.	1.0%	2.2%	4.4%
ROE	n.m.	1.2%	3.3%	8.3%
Capital Turnover	2.0	1.6	1.8	1.9
Net Debt / EBITDA	22.5	6.0	4.5	3.2
Gearing	107.6%	152.6%	132.2%	108.8%
WC / Sales	39.2%	39.0%	38.5%	38.0%
Amortization / Sales	3.1%	5.5%	5.4%	5.3%
Capex / Sales	0.7%	1.0%	1.5%	1.9%
EPS growth	6717%	-119%	174%	166%
PEG	n.m.	-1.1	0.3	0.1

Valuation	18A	19E	20E	21E
EV/Sales	0.72	0.80	0.85	0.82
EV/EBITDA	59.0	12.3	11.3	9.0
EV/EBIT	-37.4	76.2	40.2	21.3
P/E	n.m.	131.7	59.9	24.1
P/B	1.74	1.60	1.96	1.99
EV/CE	1.44	1.30	1.49	1.56
P/FCF	5.0	n.m.	10.5	9.9
FCF Yield	19.9%	-28.3%	9.5%	10.1%
Dividend yield	0.0%	0.3%	0.7%	1.7%

Sources: Company data, Twice estimates

Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. We applied to the evaluation a *synthetic index* that aims to measure the ability of the company to generate value for stakeholders sustainable over time that integrates factors with value content (ESG) with financial metrics. The Index determines an increase or decrease of up to 10% of the fair value. The model points out a 1.62€ fair value.

Concerning the 3 years' business plan we made the following assumptions:

- Revenues 2019 will remain in line with FY2018 to approx. 51M€ as a result of the general economic context slowdown. For the three-year we foresee a CAGR equal to 1.5%.
- At profitability level for the FY2019 we estimate a return to profitability, thanks to cost restraint policies; the EBITDA margin will represent approx. 6.5% of sales considering the effects of IFRS16 application; in 2021 the operating profitability should exceed 9%.
- For the FY2019 we estimate capex equal to 0.5M€ net of IFRS 16 effects. In the following years they will grow to around 1M€.
- The working capital will converge towards its normalized value supporting the cash generation.

Cash Flow	FY19	FY20	FY21
Sales	51.4	51.9	52.9
<i>Sales growth</i>	<i>0.5%</i>	<i>1.0%</i>	<i>1.9%</i>
EBIT	0.5	1.1	2.0
<i>Margin</i>	<i>1.0%</i>	<i>2.1%</i>	<i>3.8%</i>
Taxes	-0.2	-0.3	-0.6
<i>Tax rate</i>	<i>-28.0%</i>	<i>-28.0%</i>	<i>-28.0%</i>
NET RESULTS	0.2	0.4	1.2
Depreciation	2.8	2.8	2.8
<i>% of sales</i>	<i>5.5%</i>	<i>5.4%</i>	<i>5.3%</i>
Capex	-8.9	-0.8	-1.0
<i>% of sales</i>	<i>-17.3%</i>	<i>-1.5%</i>	<i>-1.9%</i>
Var. Working Capital	0.0	0.1	-0.1
Dividends	0.1	0.2	0.5
Free Cash Flow after dividends	-6.0	2.3	2.4

	Test response	Weighting
Management accountability	YES	0,11
Management Performance	YES	0,11
M&A Strategy & Execution	NO	0,04
ESG ranking	YES	0,10
Organic Growth TTM 3y exp	1,1%	-0,12
Operating Leverage	43,73	-0,10
Financial Leverage	0,62	-0,07
ROS (in %) - Growth TTM	-1,6%	-0,12
ROI (in %)	-3,9%	-0,13
SYNTETHIC SCORE		-0.18

Cost of Equity	7.0%
NET RESULT	1.16
SGA PE	25.60
SYNTHETIC SCORE	-1.75%
SGA PE ADJUSTED	25.16
TV ADJUSTED	29.25
TV ADJ actualized	24.70
Divid actualized	0.61
EQUITY Value (€M)	25.31
Number of Shares (M)	15.63
Equity V. per share ADJ (€)	1.62
<i>Upside/downside</i>	<i>19.52%</i>

Sensitivity analysis		Net result CAGR 2018-2021				
		194.9%	206.9%	212.4%	234.7%	254.2%
Risk premium	6.6%	0.62				4.77
	6.9%		0.87		2.89	
	7.0%			1.62		
	7.5%		1.23		1.66	
	8.0%	0.78				2.43

SYNTHETIC INDEX EXPLANATION

CRITERIA	WEIGHT	YES/NO	THRESHOLD
1 Management accountability	11%	NO	
2 Management Performance	11%	SI	
3 M&A Strategy & Execution	8%	NO	
4 ESG ranking	10%	NO	
5 Organic Growth <i>TTM 3y exp</i>	12%		>10%
6 Operating Leverage	10%		<2
7 Financial Leverage	13%		>1
8 ROS (in %) - <i>Growth TTM</i>	12%		>10%
9 EBIT/CIN (in %) - ROI	13%		>10%
	100%		

LEGEND

- Management accountability: publication or not of the 3-ys BPlan
- Management Performance: over/under-performance vs. expectations / BPlan / consensus
- M&A Strategy & Execution (past track record in levels of activity e post integration performance)
- ESG ranking (relationship with the territory. open innovation. youth employment. corporate welfare energy efficiency. cybersecurity and sensitive data protection - industrial and commercial)
- Organic Growth TTM; 3ys expectations → (> 10%)
- Operating Leverage → (<2)
- Financial Leverage → (>1)
- ROS (in %) - Growth TTM; 3ys expectations → (> 10%)
- ROI (in %) - Growth TTM; 3ys expectations → (> 10%)